

Message Text

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ACTION EB-08

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EO 11652: NA
TAGS: EMIN, ENRG, ID
SUBJ: CANADIAN CONTENDER WINS \$300 MILLION COAL MINING CONTRACT

1. OFFICIAL ANNOUNCEMENT WILL NOT BE MADE UNTIL JULY 1, BUT WE ARE RELIABLY INFORMED THAT THE CANADIAN CONSORTIUM HEADED BY THE MONTREAL ENGINEERING COMPANY AND INCLUDING THE CANADIAN PACIFIC RAILROAD AND SWAN WOOSTER HAS BEEN AWARDED THE MANAGEMENT/ENGINEERING TENDER FOR THE \$300 MILLION INTEGRATED COAL MINING AND TRANSPORTATION PROJECT AT BUKIT ASAM, SOUTH SUMATRA. THIS IS A VERY DISAPPOINTING RESULT FOR US AS WELL AS FOR THE AMERICAN CONTENDERS: DRAVO, FLUOR AND MORRISON-KNUDSEN, ALL OF WHOM WORKED HARD TO LAND THIS PROJECT, AND SUBMITTED EXCELLENT PROPOSALS TO THE INDONESIAN EVALUATION COMMITTEE. WE AGREE WITH AMERICAN CONTENDERS' EVALUATION THAT TECHNICALLY AND MANAGERIALLY THEY ARE ALL BETTER EQUIPPED TO PERFORM PROJECT THAN CANADIAN CONSORTIUM.

2. DEPARTMENT IS WELL AWARE THAT CANADIAN CONSORTIUM RECEIVED VERY HEAVY BACKING FROM CANADIAN GOVERNMENT INCLUDING OFFERS OF CREDIT ON CONCESSIONAL TERMS. EMBASSY TRIED HARD TO MATCH THE CANADIAN EFFORT, BUT EXIM BANK LETTER OF INTENT, EVEN WHEN SUPPORTED BY U.S. AMBASSADOR IN STRONGEST POSSIBLE TERMS, DOES NOT EQUAL OFFER

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OF 6 PERCENT MONEY WITH LONG GRACE PERIOD.

3. ANOTHER KEY FACTOR THAT SWAN WOOSTER (SEA TRANSPORTATION), CANADIAN PACIFIC (RAILROAD) AND MONTREAL ENGINEERING (ELECTRIC POWER GENERATION) ALL PERFORMED PRE-FEASIBILITY STUDIES OF PORTIONS OF THE PROJECT, AND INDONESIAN EXPERIENCE WITH THEM WAS GENERALLY GOOD.

WE REITERATE OUR FEELING THAT GETTING U.S. FIRMS IN ON THE GROUND FLOOR TO PERFORM PRE-FEASIBILITY, FEASIBILITY AND DESIGN WORK IS KEY FACTOR IN DETERMINING SUCCESS OF U.S. EFFORTS TO BOOST EXPORTS TO INDONESIA, AND THOUGHT SHOULD BE GIVEN TO OFFERING USG CONCESSIONAL FINANCING FOR THIS KIND OF WORK (SEE JAKARTA 2156). WE UNDERSTAND PROBLEMS, EG. AID'S NEW MANDATE, IN DEVELOPING SUCH A PROGRAM, BUT WE URGE RENEWED CONSIDERATION OF THIS SUGGESTION. MASTERS

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